CHAPTER VI

SUMMARY AND CONCLUSION
India is a mixed economy. In India there is the co-existence of public sector and the private sector. The objective of public sector in the economic system is to attain the commanding height of the society. It must undertake those areas where the private sector is unable and unwilling to invest. It should create a congenial economic environment for the private sector. In other words in the mixed economy system, public sector and private sector are not rival rather both are complementary to each other. Economic rational of the State is defined in terms of its (a) allocation role, (b) distributive role, (c) stabilization role and (d) regulatory role. In a welfare State like India the achievement of maximum social welfare is the main objective of the government and through good governance in terms of socio-economic infrastructure development the welfare state can perform its responsibility and ultimately deliver economic equity and social justice. However the responsibility of socio-economic infrastructure development is of both the Central Government as well as the State Government. Particularly in the area of human development based on social sector development, the State Government is more responsible dealing with people at the grass root level who have subsistence level of existence and are poverty ridden, illiterate and backward. The claim of the State Government in Indian fiscal federalism is sufficient amount of resources from the Central Government for economic development of the State through better socio-economic infrastructure development converging towards human development. In this context, the role of the statutory body such as Finance Commission (Article 280 of the Indian Constitution) and the Planning Commission, a non-statutory body created through an executive resolution in the Parliament in the year
1950 is relevant. The objectives of these two bodies are to maintain inter-State equity and balanced regional development in India. Finance Commission gives recommendations for resource transfer from the Centre to the State exploring the possibility of vertical transfer from Centre to State and horizontal transfer to distribute resources coming from Centre among different States. It grants non-plan assistance to make Balance from Current Receipts (BCR) equal to zero. BCR means non-plan revenue expenditure minus revenue receipts. This type of grant is termed as ‘Gap-filling Grants’. In addition to this Finance Commission also recommends for special grants. Usually finance Commission considers different criteria such as population of the State, per-capita income of the State, infrastructure index of the State, special problem of the State and also fiscal performance of the State to sanction financial assistance coming from the Centre to the State. Planning Commission sanctions plan assistance in the form of grants and loans in a five year plan period meant for managing plan revenue expenditure of any State incurred during annual plan, getting reflected in the annual budget of the State. However for general category States, 70 percent of the plan assistance is in the form of loan and 30 percent is in terms of grants. For special category States 10 percent of plan assistance is in the form of loan and 90 percent is in terms of grants. In the context of fiscal federalism in India, it is observed that the gap filling grant sanctioned by the Finance Commission acts as the pervasive incentive for the State and it encourages State for fiscal profligacy exaggerating non-plan assistance to be sanctioned by the Finance Commission for making BCR as nil even though revenue receipts of the State is sufficiently lower in comparison to current non-plan revenue expenditure. It leads to
improvident budgeting by States resulting in created deficits in the annual budget thereby further worsening financial position of the State in the context of debt solvency and sustainability.

The present study covers resource transfer from Centre to State in general and a comparative study of fourteen major States particularly in the context. Chapter-I of the dissertation introduces the study with a bird's eye view on the current scenario of fiscal federalism in India highlighting issues of Centre-State financial relation.

Chapter-II explains exhaustively recommendations of different Finance Commissions starting from the first Finance Commission upto the Twelfth Finance Commission, recommendations of all these Finance Commission, implication of these recommendations on Centre-State financial relation, changing trend of the growth and composition of resource transfer from the Centre to the State focusing on the objective of inter-State equity, fiscal efficiency and public finance accountability. Chapter-II specifically observes the intention of Finance Commission in due course systematically towards the fulfillment of fiscal efficiency objective for States relegating inter-State equity as the prominent objective to the background. It is getting reflected by analysing the role of Eleventh and Twelfth Finance Commissions in the framework of fiscal reforms programme during the post-globalization era.

Chapter-III has four sections. This chapter explains composition and trend of resource transfer based on empirical studies. Section-I covers State's share in Central tax, grants and loans, taking into account fourteen major States in India. Section-II explains growth rate of
different sources of transfer from the Centre to State. Section-III derives correlation between different components of fiscal transfer from the Centre to State. Section-IV attempts to explain different components of Central transfer and compare their growth rates before and after globalisation. It is observed that average Central transfer is the higher in case of low income State and lower for the high income States during the period 1974-75 to 2006-07. Growth rate of gross devolution for all State is 13.688 percent. Except Bihar, other States of low income group have high value than 13.688 percent. The highest growth rate of Central tax is 16.116 percent in the case of Orissa and lowest growth rate in this case is 12.541 percent for Punjab. In other words the growth rate is higher for low income State whereas it is lower for the high income State. In general the devolution of resources from the Centre to State is the highest for low income States, higher for middle income States and low for the high income States in terms of growth rate over the period and it conforms to the objective of inter-State equity.

Chapter-IV examines the impact of Central transfer (tax devolution and grants-in-aid) on State economy making a comparative study of fourteen major States. The performance of the State economy during the period 2001-02 to 2004-05 is analysed based on improvement of revenue deficit as a percentage of total revenue receipts highlighting improvement on account of Central transfer to examine the impact of resource transfer from Centre to State. It is observed that it has no visible influence in a definite pattern covering all fourteen major States in the category of high income, middle income and low income group. The important point to note is that infrastructure development of any
State is the key for improvement in human development index as well as economic growth. However to accomplish improvement in infrastructure index, fiscal performance of any State is important in terms of improving State's own fiscal effort through the maintenance of fiscal prudence. In the post-globalisation era improvement in fiscal effort attracts huge amount of resource transfer from the Centre to the State through debt relief and incentive fund scheme encouraging the State to divert huge amount of fund from revenue account to capital account towards infrastructure development. Center's role on State economy exploring increase in capital expenditure of any State is more productive than improvement in revenue account of the State. Chapter-V explains resource transfer from the Centre to State based on fiscal reforms programme taking into account a comparative study of fourteen major States in India. Unlike earlier Finance Commissions in the fiscal reforms programme, Eleventh and Twelfth Finance Commissions have given priority to efficient fiscal management by State in stead of equity norms. However the objective is to improve State's fiscal effort based on fiscal reforms programmes for convergence of State in terms of their socio-economic profile based on effective fiscal management. There is a general presumption that rich States are becoming richer and poor States are becoming poorer in the post-globalisation era. As the rich States have comparative advantage in terms of their socio-economic infrastructure, attracting more private investment. Rich States are also able to conform to the norms and targets of fiscal reform programmes thereby acquiring more Central transfer in comparison to other States. A thorough examination in this context exhibits an interesting result; in the case of debt relief scheme
the lower income States gets the maximum advantages followed by middle income States and the high income States. In the case of individual State benefits acquired does not depend on the category to which the State belong to. Similarly release from incentive fund also give a picture of benefits received by different States irrespective of the category to which it belongs to such as high income, middle income or low income States.

Instead of inter-State equity, now fiscal norms towards resource transfer from the Centre to the State explore the possibility of deficit stability, debt sustainability and optimum economic growth of the State and last but not the least public finance accountability through the fiscal responsibility and budget management act. Comparative advantage of any State among fourteen major States depends on a State’s fiscal efficiency on the above ground to achieve huge amount of resource transfer from the Centre to the State. Therefore individual State have no other alternative but to fulfill prescribed fiscal targets to acquire more and more resources from the Centre to maintain socio-economic infrastructure development in the State. It avoids the trade off between equity and efficiency in the context of fiscal federalism in India. The attempt at present is to take an integrated approach of fine-tuning of economy based on balanced regional development.